TEA-21 Reauthorization

The Long-Term Outlook
For Financing
Surface Transportation Programs and
Innovative Financing

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TEA-21

The Transportation Equity Act for the 21st Century (1998)

- Provided record-level funding for highway and transit capital investment
  - 40% increase over ISTEA
  - Over $208 billion overall
- Established guaranteed spending and firewalls as the heart of the financial provisions
  - Tied obligation limitation to prior year receipts
  - Limited appropriators' abilities to use Highway Trust Funds for other budgetary purposes
  - Additional resources smoothed donor-donee issues

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Revenue Picture for TEA-21

Significant growth and guarantees possible due to:

- 6.8 cents per gallon of motor fuel tax revenues added to the Highway Trust Fund
  - Did not require Congressional vote to raise user fees
  - Additional $11.5 billion per year
- Budget surpluses at federal and state levels
- RABA adjustments
  - Added $9 billion in highway funding during TEA-21

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Different Context Today

- Revenue picture
- Needs assessments
- Realities

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Reauthorization Context: Revenues

- Some ethanol tax revenue diverted to general fund; Highway Account is also subsidizing ethanol
  - Ethanol fixes are pending in reauthorization
  - Could add $14.5 billion over six years
- Federal government, most states in deficit situations
- RABA is adversely affected by economic downturns
  - FY 2003: RABA could have had negative effect on the obligation limitation
  - Has caused some to ask whether guaranteed spending should be tied to revenues or needs

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Reauthorization Context: Revenues

- Budget and Appropriations committee members may attempt to eliminate firewalls
- Election year politics are dampening support for user fee increase
- Congress looking to States to make use of alternative finance techniques
  - State Infrastructure Banks
  - Tolling to back debt financing
  - TIFIA
  - New ideas

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Reauthorization Context: Needs

- Highway Investment Needs:
  - $95 billion estimated as annual “Cost To Maintain” system conditions and performance
  - $125 billion annually required to improve conditions and performance
  - 2000 highway capital investment: $65 billion
- Transit Investment Needs:
  - $19 billion estimated as annual “Cost to Maintain” transit system conditions and performance.
  - $44 billion annually required to improve conditions and performance
  - 2000 transit capital investment: $9.5 billion

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Needs, Revenues and Realities

Well-documented needs for substantial investment in the nation’s surface transportation system

→ Ideally, Congress will meet needs through traditional means – increasing user fees

→ Support for increasing user fees exists, but may not translate into votes

→ Innovative financing mechanisms (TIFIA, SIB’s) have achieved success in selected states

→ Expanding innovative financing will not increase the size of the pie for all states

→ *Alternatives?*

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Reality of Maintaining the Status Quo

Current user fees + Spending down the Trust Fund balance

CANNOT SUSTAIN FY 2003 FUNDING LEVEL of $31.6 B

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AASHTO Top Priority

- Increase six-year highway and transit programs to minimum of $300 billion
  - Highways: $245 billion
    - Minimum of $34 billion in 2004, growing to
    - At least $45 billion annually by 2009
  - Transit: $55 billion
    - Minimum of $7.5 billion in 2004, growing to
    - At least $11 billion annually by 2009

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Menu of Options: Six-year Revenues ($B)

Revenue Option	*Highways*	*Transit*
2.5¢ gasohol	**$4.7**	-
5.2¢ gasohol	**$9.8**	-
Trust fund draw down	**$4.4**	-
Trust fund balance interest	**$1 - 5**	**$0 - 0.5**
5¢ fuels user fee increase	**$47.4**	**$8.7**
Indexing fuels user fees to CPI	**$14.9**	**$2.7**
Transportation Finance Corporation (initial proposal assumptions)	**$34.1**	**$8.5**
Sale of tax credit bonds or other financial instruments	**Varies by proposal**	**Varies by proposal**

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Two Problems with a “Do Nothing” Approach

- Mid-session review numbers are down slightly
  - Travel growth expected contributions:
    - Highways: $20b
      - Six-year revenue baseline: **$187.9b**
    - Transit: $2.4b
      - Six-year revenue baseline: **$30.2b**
- Inflation is eroding the purchasing power of motor fuels taxes
  - Increases are offset by inflation:
    - 18.3¢ in 1996 = 13.5¢ by 2009

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Current State of Play: Widely Supported Options

- Possible to grow the programs to **$206 billion** for highways through
  - Drawing down highway account balance
  - Redirecting ethanol user fees diverted to General Fund (2.5¢/gal)
  - Closing differential between ethanol and gasoline user fees (5.2¢/gal)
  - Crediting interest to Highway Trust Fund accounts
- Same options only support a **$36.6b** transit program.
- Proposals to address motor fuel tax evasion are also popular.
- Innovative financing tools and private sector investment will contribute on a project-by-project basis

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Current State of Play: Supplemental Funding

- Multiple bonding proposals have emerged to supplement traditional funding sources
- AASHTO Transportation Finance Corporation
  - Non-federal tax credit bonds for highway and transit program funding
  - Six-year supplement to traditional (user fee-based) revenue sources
- Talent-Wyden Build America Bonds
  - Non-federal tax credit bonds for all modes, state allocation & project-based distribution of funds
  - Short-term (1-3) year "economic stimulus" focus
- Senate Finance Committee
  - Federal "GO" bonds replace motor fuel user fee funding for transit

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Understanding the AASHTO Concept
TFC Fundamentals

- Tax credit bonds are sold in capital markets by a non-profit, non-federal issuer, "The Transportation Finance Corporation" or TFC
- The TFC sets aside a portion of the bond proceeds in a "sinking fund" to repay principal upon maturity
- The remaining proceeds are distributed as grants to states:
  - Highway program receives 80% according to Congressional formula
  - Transit program receives 20% according to Congressional distribution
- States, transit providers responsible for adhering to all Title 23 and Title 49 requirements
- State bond caps and credit ratings are unaffected
- States have no obligation to repay principal or interest
- Interest paid by the Federal government through annual tax credits
  - Highway Trust Fund reimburses 10-year scored cost of tax credits

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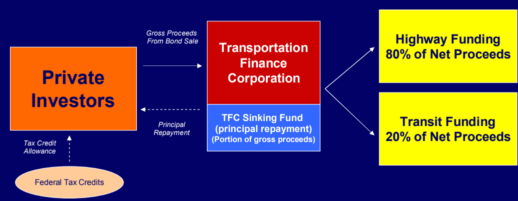
Transportation Finance Corporation

Supplementing Highway and Transit Funding:
The Transportation Finance Corporation Proposal



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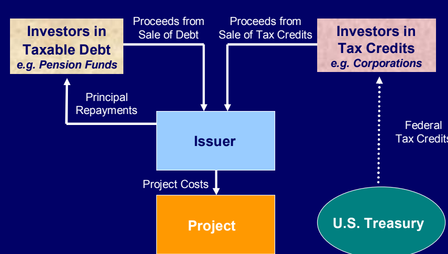
A Closer Look at Tax Credit Bonds



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What Would the TFC Cost?
Scored Cost (Federal Government's Accounting Cost)

- Tax credits count as “forgone revenues”
- “Scored cost” = first 10 years of forgone revenues
- The HTF would reimburse the Treasury each year for the scored cost of the tax credits
- The highway and transit accounts would reimburse the scored cost in proportion to the grants distributed to each “program” (80-20%)
- The direct cost to the states is zero
- The Federal budget impact is zero: spending associated with the TFC proceeds is not scored

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What Would the TFC Cost?
Economic Cost Over the Life of the Bonds

- The Federal government will forgo revenues over 36 years (30 year bonds issued over six years)
  - 36-year nominal cost: $75.4 billion
  - 36-year present value cost: $31 billion
  - 10-year scored cost: $16.6 billion

Assumptions:
- Obligation limitations of $245 highways, $55 transit
- $60 billion gross bond issue
  - $10.7 invested in sinking fund
  - $39.4 billion highway grants
  - $9.9 billion transit grants
- Gross tax credit rate 6.25%, sinking fund rate 5.9%, Treasury discount rate 5.4%

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Legislative Status

- Senate EPW Committee marked up a $255 billion bill for highways - SAFETEA
  - Contract authority, no obligation limitation
  - No formulas
- House T&I Committee rolled out a $375 billion bill to be marked up in February ’04 – TEA-LU
  - Includes formulas, obligation limitations
- Revenue titles have not been addressed by either body

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Reauthorization Outlook

- Complex and funding-driven process
- Achieving satisfactory funding levels will influence policy and aid compromises
- Additional sources of revenue are key (such as indexing or alternative fuels tax changes)
- Coordination and collaboration will benefit all
- User fee increases are opposed by the Administration and the Majority leadership in Congress

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Future Funding Potential

- Key long-term issue for the future is how to fill the gap in Trust Fund income
  - Growth rate of gas tax is slowing
  - Over time, gas time will decline as a revenue source
- Other proposals are in the offing
  - Commission to study future of revenue sources to the Highway Trust Fund
  - State-by-state experiments underway

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Questions?

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